

Supplemental Report to the Final Report of the Low Income Housing Tax Credit Subcommittee

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Supplemental Report to the Final Report of the Low Income Housing Tax Credit Subcommittee

Joint Efforts of the Low Income Housing Tax Credit Subcommittee and the Tax Law Subcommittee

The Low Income Housing Tax Credit Subcommittee (“LIHTC subcommittee”) has worked closely with the Tax Law Subcommittee in an attempt to find greater efficiencies to the Missouri low income housing tax credit “housing credit.” The Tax Law Subcommittee has also pursued similar goals with respect to the historic credit.

The Tax Law Subcommittee is exploring separate state and federal approaches that could have a significant impact on the value of the state housing credit and therefore the amount of credits that need to be issued to generate the same amount of equity that is currently be generated for housing projects.

The Final Report for low income housing tax credits recommended shortening the credit period. By shortening the credit period to 5 years it is believed, *that even without changes in the current tax law*, the number of credits could be reduced by approximately 30%. A fully funded 9% credit and a fully funded 4% credit would result in \$19.2M per year of credits or \$192M over 10 years. A fully funded 5 year credit without any changes in the law would require total credits of approximately \$133M or just over \$26M per year (for 5 years as opposed to 10 years).¹ *Total cost savings to the state 30%.*² Again, this assumes no changes in current tax law.

If the Tax Law Committee's Plan Number 1 is enacted by Congress, or Plan Number 3 is adopted by the Missouri State Legislature, the housing tax credit could be reduced by as much as 40%.³ Instead of providing \$192M of state credits over 10 years the state could provide approximately \$114M over 5 years or approximately \$23M per year. *Total cost savings to the state 40%.*
*Transition cost \$4.0M per year.*⁴

It should be noted that the maximum funding permitted for FY 2011 is approximately \$192M, but estimates are that only about \$165M in credits will actually be issued. Thus, the cost numbers reflected above are most likely greater than what would actually occur. As noted in the Final Report, while tax exempt bond financing is authorized at \$60.0M per year, the last three year's average is projected to be \$33.0M per year. If we start with an assumed annual credit of \$16.5M instead of \$19.2M then the number of credits required could be reduced by another 15%.

¹ Projections are based on no reduction in the permitted size of the LIHTC program and therefore no reduction in maximum equity which could be generated for producing housing.

² The market for a 5 year credit is an estimate because we have no established market, but this estimate is based on numerous conversations with syndicators and modeling by accounting firms to arrive at the best possible estimate.

³ Assuming a 5 year credit.

⁴ The transition cost of the 5 year credit is not that great and after year 5 the total tax credit redemptions begin to decline rapidly as the outstanding balance of 10 year credits is redeemed. The big benefit for the state is a substantial long term reduction in the cost of the low income housing tax credit program.

If syndicators or investors could exchange all outstanding credits issued prior to FY 2010 and replace said credits with credits issued pursuant to either Plan Number 1 or Plan Number 3, the state should be able to receive a substantial discount in the outstanding number of credits. Stated simply, the “new credits” are worth more than the old and the syndicators or investors should be willing to exchange their old credits for perhaps as much as a 15%-20% discount. \$500M of exchanged credits might save the state \$75-\$100M. This adaptation would require a change in state law to permit MHDC to authorize the exchange of an allocated credit to a certificated credit.

How Other States Fund Low Income Housing

The LIHTC subcommittee was asked to provide additional information on how other states fund affordable housing without a state LIHTC. The Chair wants to specifically recognize the staff of MHDC and in particular Kathryn Watts and Jennifer Tidwell for providing most of the information that has made this part of the report possible.

Different states use different vehicles to provide housing. There are a number of federal programs that are used as well as different means by which states or local governments provide financing. *In order to provide a truly accurate and in-depth analysis of what other states do to provide housing, we would need to conduct case studies on a reasonable sample of projects from each jurisdiction in order to understand how each project was funded and the extent to which funding was provided.* Time did not permit such a detailed study. As a result, we have attempted to answer the question of *how other states fund affordable housing* while recognizing that it was beyond the scope of our report to attempt an in-depth analysis of the *differences in levels of funding on a state by state basis*. However, it is probably a fair statement that Missouri provides more funding than the adjoining states and does a better job of providing quality affordable housing.

When you reduce state funding, (1) fewer units per capita are built; (2) rents are substantially higher; (3) less housing is built in rural areas because those who live in rural areas cannot pay the higher rents; (4) housing quality is less; and (5) projects have fewer amenities and services available to seniors and families (e.g. head start or after school programs for children and areas where local not-for-profits can provide services to seniors).

Arkansas does have a small state tax credit program but relies primarily on state Financing Adjuster Factor (FAF) Funds, which come from state bonds, to make low interest rate loans available. Arkansas also has an Assisted Living Incentive Fund, uses federal Home funds and some private bank financing. Arkansas has also been the beneficiary of substantial extra federal disaster funds during the past year.

Iowa does not currently have a state tax credit but attempted to pass one last year. Iowa has often used the Affordable Housing Program through the Federal Home Loan Bank Board of Des Moines. During the past few years Iowa has been the beneficiary of a significant amount of federal disaster funding for housing through both the Midwestern Disaster Area LIHTC and CDBG disaster funds. Iowa projects also frequently receive funding from local housing trust funds as well as TIFs and tax abatements.

Illinois has a state donation tax credit program which can be used with LIHTC developments and has an affordable trust fund that provides low interest rate loans. Illinois also uses federal HOME funds to provide low interest rate loans. Illinois projects also receive funding in the form of grants and TIF financing.

Kansas utilizes funds from the Federal Home Loan Bank of Topeka which are “soft loans.” Other forms of assistance include neighborhood revitalization tax rebates, the use of state historic tax credits, real estate tax abatements, private loans and sometimes deferred developer’s fees.

Kentucky uses gap funding such as HOME funds. Historic projects may use historic credits. Kentucky does have limited state housing trust funds and a limited amount of funds for loans by the state agency.

Nebraska has a housing trust fund that can be used to assist in housing developments. Nebraska also pairs federal HOME funds with the federal credit, uses TIF financing and occasionally local foundation grants. Nebraska projects typically include a small, conventional permanent loan.

Oklahoma frequently uses a variety of low interest rate loans to assist housing. Oklahoma has a Rural and Affordable Housing Linked Deposit Program which provides low interest rate loans and uses federal HOME funds and private financing. USDA Rural Development loans are also frequently used.

Other funding sources used by states in general include: USDA Section 515; FHA Insurance; Tax-Exempt Bond Financing; FHA Risk Share Insurance; Project-Based Section 8 assistance; CDBG grants; HOPE VI financing; and FHLB Affordable Housing Program.

The subcommittee would recommend that developers and MHDC work together to identify all sources of funding, particularly federal funding, and ensure that funding sources are used in the most efficient manner in order to make the state credit more efficient. Perhaps MHDC could conduct training sessions to insure that developers are aware of all potential sources and know how to blend those sources for the most efficiently funded projects.

The merits of the Missouri tax credit program and the impact it has on the state have been addressed in the initial report.